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Tom Seidenstein  
Chair  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York NY 10017  
United States of America

19 April 2023

Dear Mr Seidenstein,

**Exposure Draft: Proposed International Standard on Auditing 500 (Revised) – Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs (ED-500)**

RSM International Limited, a worldwide network of independent audit, tax and consulting firms, appreciates the opportunity to comment on the IAASB's Exposure Draft Proposed International Standard on Auditing 500 (Revised) – Audit Evidence.

In overall terms we support ED-500 and believe that it provides an appropriate principles-based reference framework for auditors.

However, in our responses to the IAASB's request for comments we make a number of suggestions for improving the drafting and adding clarity to the proposed requirements. The most significant of these is in response to Question 4 where, whilst we appreciate the modernisation of ISA 500 to incorporate the use of technology, we do consider that the IAASB could go further in redefining the types of audit procedures that are required by ISA 330. The use of technology has enabled auditors to perform more in-depth and sophisticated data analytics such that the requirement in ISA 330.21 to perform tests of details over significant risks where no tests of controls have been performed could result in duplication of effort in certain circumstances. We request the IAASB to consider whether a further consequential amendment could be made to ISA 330 in this regard.

Responses to the specific questions posed in the Exposure Draft are attached. We would be pleased to discuss our views further with you. If you have any questions regarding our comments, please contact Steve Whitcher ([steve.whitcher@rsm.global](mailto:steve.whitcher@rsm.global)) or me at ([marion.hannon@rsm.global](mailto:marion.hannon@rsm.global)).

Yours sincerely,



Marion Hannon  
Global Leader, Quality & Risk

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## Comments

### **1. Is the purpose and scope of ED-500 clear? In this regard:**

#### **(a) Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?**

Yes, we believe that the ED-500 provides an appropriate principles-based reference framework for auditors.

#### **(b) Are the relationships to, or linkages with, other ISAs clear and appropriate?**

Yes, the relationships and linkages with other ISAs are clear and appropriate. As set out in our responses below, there are some overlaps, but these appear to be intentional.

### **2. What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?**

ED-500 provides valuable clarification of the concepts of relevance, reliability, appropriateness and sufficiency of evidence.

The revisions provide a more practicable framework on which to base judgements and will lead to more thought as to the sufficiency and appropriateness of the audit evidence and, if applied properly, a consequential "mindset" change by auditors.

However, in our opinion a documentation section should be included to remove the uncertainty in respect of the requirements in this area. For example, paragraph 9 of ED-500 states that the auditor "shall evaluate the relevance and reliability of information intended to be used as audit evidence"; clarification of the intended documentation expected for this evaluation would enhance the understandability and application of the requirements.

Having said this, we do not believe that the intent of the standard is to require extensive documentation of the auditor's consideration of each individual item used as audit evidence. It would be helpful to have this point explicitly clarified within the standard.

### **3. What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?**

There are minimal requirements in ED-500 which are generally well explained by the application paragraphs, although our responses that follow do contain some recommendations for improvements to the clarity of the standard.

We recommend that:

- "external information source" should be specifically defined. Our suggestion for the definition is: "An external individual or organisation that provides information that is used by the entity in preparing the financial statements or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of management's specialist,

service organisation, or auditor's specialist, the individual or organisation is not considered an external information source with respect to that particular information."

- The IAASB should include a definition of "persuasiveness" or include additional guidance after paragraph A14. Our suggestion for the definition is "the combined measure of the appropriateness and the sufficiency of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion".

**4. Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?**

Yes, ED-500 is appropriately modernised to include the use of emerging technologies and techniques.

The revisions clearly accommodate the use of technology and acknowledge that risk assessment procedures and further audit procedures can be performed concurrently, but guidance as to how this might operate in practice would be useful.

For example, technology may enable an auditor to identify the riskier items in a population (those that are suspicious, unusual, etc.) but it is not clear from paragraphs A30-31 whether it would be appropriate to test only those riskier items.

Another example would be how the increased use of technology might affect the requirement in ISA 330.21 to perform tests of details over significant risks where no tests of controls have been performed. It may be the case that technology enables the auditor to obtain sufficient appropriate audit evidence over the whole population by performing substantive analytics and therefore a test of details would be duplication of effort.

In this regard, we also encourage the IAASB to clarify in ISA 330 what qualifies as a test of details and a substantive analytical procedure when using technology. There may be a need to move away from categorising types of procedures at all so that the precise name given to the substantive technique employed to obtain the evidence becomes less relevant. This would enable auditors to apply the framework in the standard to determine whether they have obtained sufficient, appropriate audit evidence.

In addition, ED-500 does not discuss how the use of Artificial Intelligence (AI) could affect an audit. Given the speed at which AI is evolving, such guidance could perhaps be included in supporting documentation where it can be updated at a faster pace than an ISA.

**5. Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence?**

Yes, ED-500 appropriately reinforces the exercise of professional scepticism in obtaining and evaluating audit evidence.

**6. Do you support the revised definition of audit evidence? In particular, do you agree with the "input-output model" that information can become audit evidence only after audit procedures are applied to it?**

Yes, we support the revised definition of audit evidence and agree with the "input-output" model.

However, it is unclear as to what is meant by “audit procedures” in this context. For example, if the auditor receives responses to an inquiry of management, what audit procedures should be applied to that information, other than evaluating its relevance and reliability ?

Does “audit procedures” incorporate the evaluation of relevance and reliability? If so, then we support it. However, it should be clarified in the definition.

### **7. Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?**

In overall terms we do not think that the drafting in this area is clearly laid out in ED-500. For example:

- The section headed “Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence” (A6-A9) states that sufficiency and appropriateness together affect the persuasiveness of audit evidence but does not elaborate as to how this happens until paragraphs A13-14. We suggest that the content in A6 and A9 should be moved to before A13 and 14, so as to keep the explanation of appropriateness and sufficiency in one place.
- A14 states, in respect of the quantity of evidence needed, “the higher the quality, the less may be required”. Appropriateness is a measure of quality, so it is necessary to explain the factors that increase quality. A13 adequately addresses this but then goes on to talk about persuasiveness. For us, it would appear more logical for A13 to describe the factors that increase the quality. A14 could then explain how quantity can be increased with guidance on the interrelationship with persuasiveness in the next paragraph.
- The correlation between appropriateness and sufficiency in achieving persuasiveness could also be illustrated by adding a graph depicting the concepts included in A13 and A14. For example, the bottom left of the graph would be evidence that is not very persuasive, whereas top right would be very persuasive. This would demonstrate the application of the guidance, currently in A13 and A14 which states that “increasing the quantity of audit evidence by performing the same type of audit procedures may not provide more persuasive audit evidence in all circumstances” (A13) and “Obtaining more audit evidence, however, may not compensate for its poor quality”. (A14).

### **8. Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?**

Yes, we believe that the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence.

However, as more fully explained in our response to question 2, more guidance on the extent of documentation would be useful.

### **9. Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?**

Yes, we agree with the separate conditional requirement. However we believe that further guidance on the practical application of the requirement would be useful as follows:

- Are completeness and accuracy applicable to external information sources or only to information provided by the entity? If applicable to external information sources, how would an auditor practically evaluate those characteristics?
- How much evidence over completeness and accuracy would be considered sufficient?

- Are accuracy and completeness the primary factors in considering relevance and reliability? If so, then paragraph A56 would need modifying to make this clear. In addition, there should be a clearer link between paragraphs A56 and A63 so adding a cross reference or moving A63 to come with A56 would be assist the reader.
- What are the documentation requirements?

It would also be useful to add drafting to clarify that accuracy and completeness are being used in the context of information provided by management rather than assertions over the balances in the financial statements.

**10. Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?**

In general, we agree with the requirement for auditors to stand back and assess the evidence that they have gathered.

However, we do not believe the stand back requirement in the proposal in ED-500 is necessary. This type of stand back is already included in ISA 330.26 and in ISA 700.06 and therefore the proposal in ED-500 is duplicative and potentially confusing.

It is unclear whether this is a different stand back requirement or merely a reinforcement of the existing requirements. In addition, we are unsure whether this stand back is intended to introduce a documentation requirement and, if so, what documentation would be expected.

**11. Are there any other matters you would like to raise regarding ED-500? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.**

We have the following additional comments:

- It would be helpful to include an example in paragraph A12, in respect of a circumstance when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence.
- In paragraph A27, what is the difference between “identify” and “select”?
- Reference 31, on page 36 of ED-500, appears to be incorrect and should be ISA 600 (Revised) paragraph A35.

**12. The IAASB is also seeking comments on the matters set out below:**

**(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing ED-500.**

We have no concerns in this regard.

**(b) Effective Date—Recognizing that ED-500 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged.**

**The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

We have no significant comments in this area, but we request the IAASB to be mindful of other standards which may become effective at the same time and not place too high a burden on Firms as they implement the new ISAs.